Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 10 July 2002 under the Companies Law. Its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 November 2004.

The principal place of business is located at 11th Floor, Block E1, Hoi Bun Industrial Building, No. 6 Wing Yip Street, Kwun Tong, Kowloon, Hong Kong.

Principal activities of the Group were manufacture and sale of precision metal components for hard disk drives ("HDDs"), hydraulic equipment, fiber optic connectors, electronic device, automotive parts and other applications.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Tottenhill Limited ("Tottenhill"), which was incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidation financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 33, 36, 37, 38, HKFRS 5, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 17 – Leases**

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts in the consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(b) **HKASs 32 and 39 – Financial Instruments**

Derivative financial instruments – Forward currency contracts

Forward currency contracts held to hedge firm future commitments are designated as cash flow hedges from 1 January 2005 and are recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the hedge (if any) is recognised immediately in the income statement. Previously, forward currency contracts held to hedge firm future commitments were deferred on the balance sheet until the item being hedged was itself recognised.

The Group's forward currency contracts do not qualify for hedge accounting and the gains or losses arising from changes in fair value on the forward currency contracts are taken directly to net profit or loss for the year.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(c) HKAS 40 – Investment Property

In the prior year, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balances of retained profits as at 31 December 2005 and the results for the comparative period have been restated to reflect this change retrospectively. As the Group has not previously disclosed publicly the fair value of the investment properties as at 1 January 2004, the opening balances of retained profits as at 1 January 2004 has not been restated. The effects of the above changes are summarised in note 2.4 to the financial statements.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested by 1 January 2005 are summarised in note 2.4 to the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(e) HKFRS 3 – Business Combinations

In prior years, negative goodwill arising on acquisitions was carried in the balance sheet and was recognised in the income statement on a systematic basis over the remaining average useful life of the acquired amortisable assets.

Upon the adoption of HKFRS 3, any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the asset revaluation reserve) against retained profits.

The effect of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Explorations for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 4	Determining whether an Arrangement contains a Lease
HK (IFRIC) – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC) - Int 5 and HK(IFRIC) - Int 6 do not apply to the activities of the Group. HK(IFRIC) - Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 January 2005	**HKAS 1#**	**HKAS 17#**	**HKAS 40#**	
Effect of new policies (Increase/(decrease))	**Presentation**	**Prepaid land lease payments**	**Surplus on revaluation of investment properties**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Property, plant and equipment	(12,770)	(34,659)	–	(47,429)
Investment properties	12,770	–	–	12,770
Prepaid land lease payments	–	33,883	–	33,883
Prepayments, deposits and other receivables	–	776	–	776
				–
Liabilities/equity				
Asset revaluation reserve	–	–	2,559	2,559
Retained profits	–	–	(2,559)	(2,559)
				–

#: *Adjustments/presentation taken effect retrospectively*

2.4 SUMMARY OF IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect on the consolidated balance sheet *(Continued)*

At 31 December 2005 Effect of new policies (Increase/(decrease))	HKAS 1 Presentation HK$'000	HKAS 17 Prepaid land lease payments HK$'000	Effect of adopting HKASs 32 &39 Fair value-derivative financial instruments HK$'000	HKAS 40 Surplus on revaluation of investment properties HK$'000	HKFRS 2 Equity-settled share option scheme HK$'000	HKFRS 3 Derecognition of negative goodwill HK$'000	Total HK$'000
Assets							
Property, plant and equipment	(15,986)	(36,032)	–	–	–	–	(52,018)
Investment properties	15,986	–	–	3,216	–	–	19,202
Prepaid land lease payments	–	35,246	–	–	–	–	35,246
Negotive goodwill	–	–	–	–	–	25,326	25,326
Prepayments, deposits and other receivables	–	786	–	–	–	–	786
Derivative financial instruments	–	–	1,186	–	–	–	1,186
							29,728
Liabilities/equity							
Derivative financial instruments	–	–	2,921	–	–	–	2,921
Share option reserve	–	–	–	–	7,577	–	7,577
Retained profits	–	–	(1,735)	3,216	(7,577)	25,326	19,230
							29,728

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 40 Surplus on revaluation of investment properties HK$'000	HKFRS 3 Negative goodwill HK$'000	Total HK$'000
1 January 2004	–	–	–
			–
1 January 2005			
Asset revaluation reserve	2,559	–	2,559
Retained profits	(2,559)	(25,326)	(27,885)
			(25,326)

2.4 SUMMARY OF IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the years ended 2005 and 2004

	Effect of adopting				
Effect of new policies	**HKASs 32&39 Fair value-derivative financial instruments**	**HKAS 40 Surplus on revaluation of investment properties**	**HKFRS 2 Employee share option scheme**	**HKFRS 3 Recognition negative goodwill as income**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005					
Increase/(decrease) in other income and gains	1,186	3,216	–	(1,487)	2,915
Decrease in administrative expenses	–	–	(7,577)	–	(7,577)
Decrease in other expenses	(2,921)	–	–	–	(2,921)
Total increase/(decrease) in profit	(1,735)	3,216	(7,577)	(1,487)	(7,583)
Increase/(decrease) in basic earnings per share (HK cents)	(0.31)	0.57	(1.34)	(0.26)	(1.34)
Increase/(decrease) in diluted earnings per share (HK cents)	(0.29)	0.53	(1.25)	(0.25)	(1.26)
Year ended 31 December 2004					
Increase in other income and gains	–	2,559	–	–	2,559
Total increase in profit	–	2,559	–	–	2,559
Increase in basic earnings per share (HK cents)	–	0.649	–	–	0.649
Increase in diluted earnings per share (HK cents)	–	0.648	–	–	0.648

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of a subsidiary (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, investment properties), the asset's recoverable amount is estimated. An asset's reverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flow are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent company;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity residers with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	Over the shorter of the lease terms and 50 years
Leasehold improvements	Over the shorter of the lease terms and 3 to 5 years
Plant and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Useful lives and the depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress includes the cost of construction and other direct costs attributable to the construction of property, plant and machinery, which are stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and put into use.

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of good or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposed of an investment property are recognised in the income statement in the year of retirement or disposal.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sales, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Financial assets (applicable to the year ended 31 December 2005)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included into the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets (applicable to the year ended 31 December 2005) *(Continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005) *(Continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gain or losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group's derivative financial instruments do not qualify for hedge accounting and any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits with banks and which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the good sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is calculated by using a binomial model, further details of which are given in note 30. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("markets conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as the beginning and end of that period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK$1,000 per month, are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred except for those directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, which are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency rate are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of those entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Comparative amounts

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment. For financial instruments, in accordance with the transitional provisions of the relevant accounting standard, comparative amounts have not been restated.

3. SIGNIFICANT ACCOUNTING AND JUDGEMENTS AND ESTIMATES

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of the goods or services for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year, is discussed below:

Impairment of assets

The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The Group's operating businesses are structured and managed separately according to geographical location of the customers. Each of the Group's geographical segments represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments.

In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the location of the assets.

The locations of the geographical segments are as follows:

(a) Thailand;

(b) Malaysia;

(c) Singapore;

(d) Mainland China, Macau and Hong Kong;

(e) North America;

(f) Europe; and

(g) Other countries.

In determining the Group's business segments, revenues and assets are attributed to the segments based on the products they provide.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005	Thailand HK$'000	Malaysia HK$'000	Singapore HK$'000	Mainland China, Macau and Hong Kong HK$'000	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:									
Sales to external customers	206,245	119,104	–	18,136	16,013	44,029	2,450	–	405,977
Intersegment sales	13,474	–	–	168,116	–	–	–	(181,590)	–
Other revenue	3,630	–	–	11,325	–	–	761	–	15,716
Total revenue	223,349	119,104	–	197,577	16,013	44,029	3,211	(181,590)	421,693
Segment results	33,952	23,586	–	175,311	3,527	9,712	1,302	(171,180)	76,210
Interest income									2,411
Interest expense									(11,460)
Profit before tax									67,161
Tax									(2,763)
Profit for the year									64,398
Attributable to:									
Equity holders of the parent company									64,398
Minority interests									–
									64,398
Assets and liabilities									
Segment assets	237,210	42,759	15	876,886	3,206	12,665	1,995	(40,475)	1,134,261
Unallocated assets									–
Total assets									1,134,261
Segment liabilities	48,100	–	1,577	396,367	65	755	43,092	(40,475)	449,481
Unallocated liabilities									200,037
Total liabilities									649,518
Other segment information:									
Capital expenditure	60,813	–	–	328,198	–	–	–	–	389,011
Depreciation and amortisation	12,581	–	–	34,029	–	–	–	–	46,610
Fair value gains on investment properties	–	–	–	3,216	–	–	–	–	3,216
Changes in fair value of derivative financial instruments:									
interest rate swap	–	–	–	1,186	–	–	–	–	1,186
forward currency contracts	–	–	–	(2,921)	–	–	–	–	(2,921)

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

Year ended 31 December 2004	Thailand HK$'000	Malaysia HK$'000	Singapore HK$'000	Mainland China, Macau and Hong Kong HK$'000 (Restated)	North America HK$'000	Europe HK$'000	Other countries HK$'000	Eliminations HK$'000	Total HK$'000 (Restated)
Segment revenue:									
Sales to external customers	150,440	74,803	518	14,912	7,637	32,369	993	–	281,672
Intersegment sales	690	–	–	19,095	–	–	–	(19,785)	–
Other revenue	636	–	–	13,415	–	–	217	–	14,268
Total revenue	151,766	74,803	518	47,422	7,637	32,369	1,210	(19,785)	295,940
Segment results	(6,806)	19,938	(103)	(2,543)	2,281	9,686	567	39,560	62,580
Interest income									69
Interest expense									(5,109)
Profit before tax									57,540
Tax									(4,302)
Profit for the year									53,238
Attributable to:									
Equity holders of the parent company									53,235
Minority interests									3
									53,238
Assets and liabilities									
Segment assets	163,590	23,257	8	372,097	1,611	9,391	1,970	(14,187)	557,737
Unallocated assets									230
Total assets									557,967
Segment liabilities	43,013	–	79	155,569	–	–	27,359	(14,187)	211,833
Unallocated liabilities									52,361
Total liabilities									264,194
Other segment information:									
Capital expenditure	5,266	–	–	150,853	–	–	–	–	156,119
Depreciation and amortisation	11,989	–	–	13,222	–	–	49	–	25,260
Fair value gains on investment properties	–	–	–	2,559	–	–	–	–	2,559

4. SEGMENT INFORMATION *(Continued)*

(b) Business segments

The following tables present revenue and certain asset and capital expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005	**HDDs components HK$'000**	**Hydraulic equipment components HK$'000**	**Fibre optical connector components HK$'000**	**Electronic device components HK$'000**	**Automotive components HK$'000**	**Others HK$'000**	**Eliminations HK$'000**	**Total HK$'000**
Segment revenue:								
Sales to external customers	**326,903**	**62,986**	**3,922**	**9,926**	**1,026**	**1,214**	**–**	**405,977**
Other segment information:								
Segment assets	**164,568**	**59,881**	**8,728**	**8,209**	**9,232**	**1,083**	**–**	**251,701**
Unallocated assets								**882,560**
Total assets								**1,134,261**
Capital expenditure	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Corporate and other unallocated amounts								**389,011**
Total capital expenditure								**389,011**

Year ended 31 December 2004	HDDs components HK$'000	Hydraulic equipment components HK$'000	Fibre optical connector components HK$'000	Electronic device components HK$'000	Automotive components HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
Segment revenue:								
Sales to external customers	215,748	44,150	6,702	11,707	325	3,040	–	281,672
Other segment information:								
Segment assets	98,591	23,595	1,689	7,112	123	346	–	131,456
Unallocated assets								426,511
Total assets								557,967
Capital expenditure	–	–	–	–	–	–	–	–
Corporate and other unallocated amounts								156,119
Total capital expenditure								156,119

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and gross rental income received and receivable from investment properties during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	Note	**2005** **HK$'000**	2004 HK$'000 (Restated)
Revenue			
Sale of goods		**405,977**	281,672
Other income			
Bank interest income		**2,411**	69
Sub-contracting income		**–**	74
Rental income		**–**	424
Sundry income		**1,397**	866
		3,808	1,433
Gains			
Fair value gains on investment properties	*16*	**3,216**	2,559
Foreign exchange gains, net		**7,747**	–
Negative goodwill recognised as income		**–**	1,487
Gain on disposal of items of property, plant and equipment		**–**	4
Write-back of other payables		**–**	57
Fair value gains, net-derivative financial instruments – transactions not qualifying as hedges		**1,186**	–
Net compensation from a fire accident		**–**	5,969
Scrap sales		**2,170**	2,828
		14,319	12,904
		18,127	14,337

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold*		**282,348**	187,036
Depreciation	*15*	**45,834**	24,518
Recognition of prepaid land lease payments	*17*	**776**	742
Equity-settled share option expenses	*30*	**7,577**	–
Auditors' remuneration		**1,522**	874
Employee benefits expense**			
(excluding directors' remuneration *(note 8)*):			
Wages and salaries		**46,500**	38,020
Equity-settled share option expenses**		**3,798**	–
Pension scheme contributions***		**1,284**	1,042
		51,582	39,062
Minimum lease payments under operating leases:			
Land and buildings		**106**	185
Equipment		**216**	28
		322	213
Research and development costs		**8,168**	5,561
Rental income		**–**	(424)
Foreign exchange (gains)/losses, net		**(7,747)**	2,397
Fair value (gains)/losses, net:			
Derivative financial instruments			
– transactions not qualifying as hedges:			
Interest rate swap	*25*	**(1,186)**	–
Forward currency contracts	*25*	**2,921**	–
Negative goodwill recognised as income****		**–**	(1,487)
Loss on disposal of a subsidiary	*32*	**173**	–
Gain/(Loss) on disposal of items of property, plant and equipment	*15*	**338**	(4)
Changes in fair value of investment properties	*16*	**(3,216)**	(2,559)
Bank interest income		**(2,411)**	(69)

6. PROFIT BEFORE TAX *(Continued)*

Notes:

* The cost of inventories sold includes approximately HK$67,542,000 (2004: HK$46,409,000) relating to employee benefits expense, depreciation and operating lease charges, the amount of which were also included in the respective total amounts disclosed separately above for each of these types of expenses.

** The equity-settled share option expense for the year is included in "Administrative expenses" on the face of the consolidated income statement.

The equity-settled share option expense includes approximately HK$3,798,000 (2004: Nil) relating to employee benefits expense which was also included in the employee benefits expense separately disclosed above.

*** At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in the future years (2004: Nil).

**** The negative goodwill recognised as income in the consolidated income statement for the year is included in "Other income and gains" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loan and overdrafts wholly repayable within five years	**7,955**	4,014
Financial arrangement fees	**756**	–
Interest on finance leases	**3,487**	873
Other interest	**18**	222
	12,216	5,109

8. DIRECTORS' REMUNERATION

The remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees:	**2,157**	1,700
Other emoluments:		
Salaries, allowances and benefits in kind	**2,924**	3,156
Employee share option benefits	**2,034**	–
Retirement benefits scheme contributions	**48**	43
	5,006	3,199
	7,163	4,899

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in the note 30 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees and employee share option benefits paid to independent non-executive directors during the year were as follows:

2005

	Group		
	Fees	**Employee share option benefits**	**Total remuneration**
	HK$'000	**HK$'000**	**HK$'000**
Dr. Cheng Ngok	**60**	**118**	**178**
Mr. Choi Hon Ting, Derek	**60**	**118**	**178**
Mr. Wu Karl Kwok	**60**	**118**	**178**
	180	**354**	**534**

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors *(Continued)*

2004

	Fees HK$'000	Group Employee share option benefits HK$'000	Total remuneration HK$'000
Dr. Cheng Ngok	10	–	10
Mr. Choi Hon Ting, Derek	10	–	10
Mr. Wu Karl Kwok	10	–	10
	30	–	30

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005					
Executive directors:					
Mr. Chui Siu On	**390**	**1,220**	**257**	**12**	**1,879**
Mr. Ho Yu Hoi	**667**	**857**	**435**	**–**	**1,959**
Mr. Lai Man Kit	**360**	**628**	**435**	**12**	**1,435**
Mr. Li Chi Hang	**200**	**219**	**435**	**12**	**866**
Mr. Ng Kin Nam*	**240**	**–**	**79**	**8**	**327**
	1,857	**2,924**	**1,641**	**44**	**6,466**
Non-executive director:					
Mr. Ng Kin Nam*	**120**	**–**	**39**	**4**	**163**
	1,977	**2,924**	**1,680**	**48**	**6,629**

* *During the year, Mr. Ng Kin Nam was redesignated as a non-executive director with effect from 29 August 2005.*

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive director *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2004					
Executive directors:					
Mr. Chui Siu On	390	1,259	–	12	1,661
Mr. Ho Yu Hoi	360	937	–	–	1,297
Mr. Lai Man Kit	360	628	–	14	1,002
Mr. Li Chi Hang	200	332	–	11	543
Mr. Ng Kin Nam	360	–	–	6	366
	1,670	3,156	–	43	4,869

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil). In addition, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2004: Nil).

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid employees during the year included four (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2004: two) non-director, highest paid employee for the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**780**	1,585
Employee share option benefits	**450**	–
Retirement benefits scheme contributions	**12**	12
	1,242	1,597

9. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The number of non-director, highest paid employee whose remuneration fell within the following band is as follows:

	Number of employees	
	2005	2004
	HK$'000	HK$'000
Nil to HK$1,000,000	**1**	2

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above non-director, highest paid employees' remuneration disclosures.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**1,250**	220
Overprovision in prior years	**–**	–
Current – Elsewhere		
Charge for the year	**3,618**	2,081
Overprovision in prior years	**(370)**	(29)
Deferred *(note 28)*	**(1,735)**	2,030
Total tax charge for the year	**2,763**	4,302

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before tax	**67,161**	57,540
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	**15,710**	11,070
Expenses not deductible for tax	**20,527**	23,339
Income not subject to tax	**(34,315)**	(29,437)
Effect on opening deferred tax of increase in rates	**–**	(222)
Utilisation of previously unrecognised tax losses	**–**	(606)
Overprovision in the prior year	**(370)**	(29)
Adjustments in respect of current tax of previous years	**1,159**	–
Tax losses not recognised	**52**	–
Others	**–**	187
At the effective income tax rate of 4.1% (2004: 7.8%)	**2,763**	4,302

According to the income tax law of the PRC on Enterprises with Foreign Investment and Foreign Enterprises, Dongguan Koda Metal Products Company Ltd. ("Dongguan Koda") and Guangzhou Xing Hao Precision Metal Products Co., Ltd ("Xing Hao"), two wholly-owned subsidiaries of the Company established in the Dongguan Coastal Economic Open Zone and Zengcheng Xiancun LanTian Economic Open Zone, respectively, are subject to corporate income tax at a rate of 24%, and are exempt from PRC corporate income tax for the first two profitable years of their operations, and thereafter, are eligible for 50% relief from PRC corporate income tax for the following three years. On 13 November 2003, Dongguan Koda obtained a further approval from the local tax authority that it would be subject to a tax rate of 10% for the three years ending 31 December 2006. Dongguan Koda began its first profitable year in the year ended 31 December 1999 and it is subject to a tax rate of 10% during the year ended 31 December 2005 (2004: 10%). Xing Hao began its first profitable year in the year ended 31 December 2004 and its profit was not subject to tax in the year ended 31 December 2005 (2004: Nil).

10. TAX *(Continued)*

Integrated Precision Engineering (Thailand) Company Limited ("IPE Thailand"), a company incorporated in Thailand, is subject to income tax in Thailand at a rate of 30% on estimated assessable profits arising in or derived from Thailand. IPE Thailand has two production factories, Factory I and Factory II. IPE Thailand is exempted from income tax for a period of three years from 2 June 2000 to 1 June 2003 for income generated from Factory I due to the promotion privileges granted under the Investment Promotion Act B.E. 2520 by the Board of Investment, a government authority, in Thailand. The Board of Investment also granted IPE Thailand an exemption from income tax for a period of three years from 3 January 2003 to 2 January 2006 for income generated from Factory II. From 2 June 2003, IPE Thailand is subject to income tax at the rate of 30% for income generated from Factory I.

Under Decree-Law no.58/99/M, Macau companies incorporated under that Law (referred to as the "58/99/M Companies") are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. IPE Macao Commercial Offshore Limited, a subsidiary of the Group in Macau, is qualified as a 58/99/M Company.

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$26,000 (2004: net profit of HK$20,605,000) (note 31(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	HK$'000
Interim – HK1.5 cents (2004: HK6.05 cents per ordinary share)	**9,009**	6,050
Final dividend paid in respect of the previous financial year on shares issued under the Company's share option scheme and placement of new shares subsequent to the balance sheet date and before the close of the Register of Members of the Company, of HK1.8 cents (2004: Nil)	**1,803**	–
Proposed final – HK1.8 cents (2004: HK1.8 cents per ordinary share)	**10,867**	9,000
	21,679	15,050

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT COMPANY

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders of the parent company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2005	2004
	HK$'000	HK$'000 (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent company	**64,398**	53,235

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**567,115,000**	393,808,219
Effect of dilution – weighted average number of ordinary shares: Share options	**38,898,198**	885,329
	606,013,198	394,693,548

14. NEGATIVE GOODWILL

Negative Goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisitions. Upon the adoption of HKFRS 3 on 1 January 2005, such negative goodwill of HK$25,326,000 was derecognised with a corresponding adjustment to the opening balance of retained profits.

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15. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Land and Buildings HK$'000 (Restated)	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
At 1 January 2005							
Cost	47,455	3,729	312,445	5,025	9,264	72,438	450,356
Accumulated depreciation	(5,374)	(3,155)	(106,539)	(2,901)	(7,893)	–	(125,862)
Net carrying amount	42,081	574	205,906	2,124	1,371	72,438	324,494
At 1 January 2005, net of accumulated depreciation	42,081	574	205,906	2,124	1,371	72,438	324,494
Additions	706	–	86,794	1,084	347	298,543	387,474
Disposals	–	–	(95)	(48)	(3)	(192)	(338)
Disposal of a subsidiary (note 32)	–	–	–	–	(57)	–	(57)
Provided during the year	(5,783)	(501)	(37,817)	(867)	(866)	–	(45,834)
Transfers	77,248	–	134,639	1,588	2,920	(216,395)	–
Exchange realignment	(1,071)	–	(1,846)	(58)	(34)	1,313	(1,696)
At 31 December 2005, net of Accumulated depreciation	113,181	73	387,581	3,823	3,678	155,707	664,043
At 31 December 2005							
Cost	124,148	3,729	530,008	7,409	11,766	155,707	832,767
Accumulated depreciation	(10,967)	(3,656)	(142,427)	(3,586)	(8,088)	–	(168,724)
Net carrying amount	113,181	73	387,581	3,823	3,678	155,707	664,043
At 1 January 2004							
Cost	44,433	3,667	220,878	3,733	8,571	9,231	290,513
Accumulated depreciation	(3,610)	(2,664)	(84,690)	(2,187)	(7,487)	–	(100,638)
Net carrying amount	40,823	1,003	136,188	1,546	1,084	9,231	189,875
At 1 January 2004, net of accumulated depreciation	40,823	1,003	136,188	1,546	1,084	9,231	189,875
Additions	914	62	74,649	1,206	907	78,381	156,119
Provided during the year	(1,699)	(491)	(21,000)	(689)	(639)	–	(24,518)
Transfers	1,470	–	13,676	28	–	(15,174)	–
Exchange realignment	573	–	2,393	33	19	–	3,018
At 31 December 2004, net of Accumulated depreciation	42,081	574	205,906	2,124	1,371	72,438	324,494
At 31 December 2004							
Cost	47,455	3,729	312,445	5,025	9,264	72,438	450,356
Accumulated depreciation	(5,374)	(3,155)	(106,539)	(2,901)	(7,893)	–	(125,862)
Net carrying amount	42,081	574	205,906	2,124	1,371	72,438	324,494

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book values of the Group's property, plant and equipment held under finance leases included in the total amount of respective categories of property, plant and equipment as at 31 December 2005 are:

(i) plant and machinery amounting to HK$144,307,000 (2004: HK$68,210,000);

(ii) construction in progress amounting to HK$5,541,000 (2004: HK$8,179,000); and

(iii) motor vehicles amounting to HK$220,000 (2004: HK$321,000).

At 31 December 2004, furniture and fixtures of the Group with net book value amounting to HK$161,000 were also held under finance leases. As at 31 December 2005, no furniture and fixtures were held under finance leases.

At 31 December 2005, certain of the Group's plant and machinery with a net book value of approximately HK$39,400,000 (2004: HK$50,552,000) were pledged to secure general banking facilities granted to the Group (note 26).

At 31 December 2005, certain of the Group's land and buildings with a net book value of approximately HK$2,370,000 (2004: HK$21,950,000) were pledged to secure general banking facilities granted to the Group (note 26).

16. INVESTMENT PROPERTIES

	2005 HK$'000	2004 HK$'000 (Restated)
Carrying amount at 1 January	**12,770**	10,211
Net profit from a fair value adjustment *(note 5)*	**3,216**	2,559
Carrying amount 31 December	**15,986**	12,770

The Group's investment properties are situated in Hong Kong and Beijing, the PRC and are held under the following lease terms:

	HK$'000
Long term leases	1,786
Medium term leases	14,200
Carrying amount 31 December	15,986

The Group's investment properties were revalued on 31 December 2005 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK$15,986,000 on an open market value, existing use basis.

At 31 December 2005, the Group's investment properties with a value of HK$14,200,000 (2004: HK$10,600,000) were pledged to secure general banking facilities granted to the Group (note 26).

16. INVESTMENT PROPERTIES *(Continued)*

Further particulars of the Group's investment properties are as follows:

Location	Use	Tenure	Attributable interest of the Group
Unit B Golden Lake Villa No. 29 Silver Cape Road, Sai Kung New Territories, Hong Kong	Residence	Medium term lease	100%
Room E on Level 16 Shen Fang Commercial Building amid An Zhen Xi Li Si Qu Chaoyang District, Beijing The PRC	Residence	Long term lease	100%

17. PREPAID LAND LEASE PAYMENTS

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.4)*	**34,659**	35,223
As restated	**34,659**	35,223
Additions during the year*	**1,537**	–
Recognised during the year	**(776)**	(742)
Exchange realignment	**612**	178
Carrying amount at 31 December	**36,032**	34,659
Current portion included in prepayments, deposits and other receivables	**(786)**	(776)
Non-current portion	**35,246**	33,883

* *The Group is in the process of obtaining the land use rights certificate of this piece of land acquired during the year.*

The leasehold lands are held under medium leases and are situated in Hong Kong and Mainland China.

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18. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000 (Restated)
Unlisted shares, at cost	**43**	43
Due from subsidiaries	**185,717**	71,166
	185,760	71,209

The amounts due from subsidiaries included in the Company's current assets HK$185,717,000 (2004: HK$71,166,000), are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Best Device Group Limited ("Best Device")	British Virgin Islands/ Hong Kong	US$5,528	100%	–	Investment holding
Cyber Starpower Limited	British Virgin Islands/ Hong Kong	US$1,000	–	100%	Investment holding
Anglo Dynamic Limited	British Virgin Islands/ Hong Kong	US$2,000	–	100%	Investment holding
Tai Situpa Group Limited	British Virgin Islands/ Hong Kong	US$2,000	–	100%	Investment holding
Lewiston Group Limited	British Virgin Islands/ Hong Kong	US$1,000	–	100%	Investment holding
Integrated Precision Engineering (Thailand) Company Limited	Thailand	THB150,000,000	–	99.99%	Trading and manufacturing of precision metal components
Integrated Precision Engineering Pte. Limited ("IPE Singapore")	Singapore	S$1,200,000	–	100%	Dormant

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Integrated Precision Engineering Company Limited	Hong Kong	HK$3,000,000	–	100%	Trading of precision metal components and investment holding
IPE Macao Commercial Offshore Limited	Macau	MOP100,000	–	100%	Trading of precision metal components
Dongguan Koda Metal Products Company Ltd.*	PRC/Mainland China	HK$169,099,081	–	100%	Manufacturing of precision metal component
Guangzhou Xing Hao Precision Metal Products Co., Ltd. ("Xing Hao")**	PRC/Mainland China	HK$193,606,271	–	100%	Manufacturing of precision metal component
IPE Precision Machinery Limited	Hong Kong	HK$100,000	–	100%	Investment holding
廣州科裕機械設備有限公司 ("Ke Yu")***	PRC/Mainland China	US$309,637	–	100%	Not yet commenced business

* *Dongguan Koda is a wholly-foreign-owned enterprise with a registered capital of HK$213,000,000. The remaining capital of HK$43,900,919 should be contributed before 22 December 2008.*

** *Xing Hao is a wholly-foreign-owned enterprise with a registered capital of HK$193,606,271. The remaining capital of HK$336,393,729 should be contributed before 27 December 2008.*

*** *Ke Yu is a wholly-foreign-owned enterprise with a registered capital of USD2,000,000. The remaining capital of USD1,690,363 should be contributed before 30 September 2006.*

During the year, the Group disposed of Integrated Precision Engineering (Japan) Company Limited. Further details of this disposal are included in note 32 to the financial statements.

19. INVENTORIES

	Group 2005 HK$'000	2004 HK$'000
Raw materials	**53,917**	15,043
Consumables	**14,452**	5,280
Work-in-progress	**51,160**	29,677
Finished goods	**12,523**	13,982
	132,052	63,982
Less: provision for inventory obsolescence	**(5,017)**	(9,978)
	127,035	54,004

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 to 120 days, but longer credit terms will be granted to certain major customers with the approval of directors. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group 2005 HK$'000	2004 HK$'000
Within 1 month	**41,984**	28,458
1 to 2 months	**40,513**	26,907
2 to 3 months	**27,091**	15,670
3 to 4 months	**10,507**	4,650
4 to 12 months	**4,571**	1,767
	124,666	77,452

The carrying amounts of trade receivables approximate to their fair values.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Prepayments	**2,025**	3,764	**422**	76
Deposits and other receivables	**5,250**	12,377	**2**	–
	7,275	16,141	**424**	76

The carrying amounts of prepayments, deposits, and other receivables approximate to their fair values.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**95,591**	45,167	**284**	15,608
Time deposits	**62,852**	18,601	**–**	–
	158,443	63,768	**284**	15,608
Less: Pledged time deposits for bank borrowings	**–**	(11,506)	**–**	–
Cash and cash equivalents	**158,443**	52,262	**284**	15,608

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$9,615,000 (2004: HK$5,842,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

At 31 December 2005, the Group had no pledged deposits (2004: HK$11,506,000) to secure its banking facilities.

23. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Within 1 month	**31,448**	59,493
1 to 2 months	**27,114**	12,917
2 to 3 months	**14,175**	9,192
3 to 4 months	**8,152**	960
4 to 12 months	**2,178**	1,150
Over 1 year	**–**	112
	83,067	83,824

The trade payables are non-interest-bearing and are normally settled on terms ranging from 60 to 90 days. The carrying amounts of trade and bills payables approximate to their fair values.

24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Other payables	**191,138**	38,910	**–**	483
Accruals	**8,899**	5,185	**–**	–
	200,037	44,095	**–**	483

Other payables, which mainly represented payables for purchase of machinery, are non-interest-bearing and repayable within one year. The carrying amounts of other payables and accruals approximate to their fair values.

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2005 HK$'000	Group 2004 HK$'000
Derivative financial instruments – transactions not qualifying as hedges		
Assets		
Interest rate swap*	**1,186**	–
Liabilities		
Forward currency contracts**	**2,921**	–

The carrying amounts of the forward currency contracts and interest rate swap are the same as their fair values.

* *As at 31 December 2005, the Group had an interest rate swap agreement with a bank to manage its interest rate exposure in connection with the Group's long term banking facilities which did not meet the criteria for hedge accounting. A notional amount of HK$100,000,000 (2004: Nil) with the floating rate was swapped into fixed rate. The agreement lasts for three years and will expire in August 2008.*

** *As at 31 December 2005, the Group had entered into forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The agreement requires the Group to buy Japanese Yen with US$ at a pre-agreed exchange rate on pre-determined dates up to May 2006.*

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables *(note 27)*	2.95~9.4	2006	**30,249**	15,979
Bank overdrafts – unsecured	4.01~5.25	On demand	**6,103**	14,167
Bank loans – unsecured	5.01~5.27	2006	**75,000**	13,844
Bank loans – secured	Prime rate minus 2.6%	2006	**992**	993
Trust receipt loans – unsecured	1.38~5.63		**–**	6,011
Other loans – unsecured	3~5.5	2006	**2,840**	8,099
			115,184	59,093
Non-current				
Financial lease payables *(note 27)*	2.95~9.4	2007~2009	**68,694**	42,400
Bank loans – secured	Prime rate minus 2.6%	2008	**2,151**	3,126
Bank loans – unsecured	5.01~5.27	2007~2011	**173,803**	26,086
			244,648	71,612
			359,832	130,705

26. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	Group	
	2005	2004
	HK$'000	HK$'000
Analysis into:		
Bank loans and overdrafts repayables:		
Within one year or on demand	**82,095**	35,015
In the second year	**82,547**	4,350
In the third to fifth years, inclusive	**92,051**	22,419
Beyond five years	**1,356**	2,443
	258,049	64,227
Other borrowings repayable:		
Within one year	**33,089**	24,078
In the second year	**28,956**	16,460
In the third to fifth years, inclusive	**39,738**	25,940
	101,783	66,478
	359,832	130,705

Notes:

(a) Certain of the Group's banking facilities were secured by:

(i) Charges over certain of the Group's land and buildings which had an aggregate net book value at the balance sheet date of approximately HK$2,376,000 (2004: HK$21,950,000);

(ii) Charges over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of approximately HK$14,200,000 (2004: HK$10,600,000);

(iii) Charges over certain of the Group's plant and machinery which had an aggregate net book value at the balance sheet date of approximately HK$39,736,000 (2004: HK$50,552,000); and

(iv) Time deposits of approximately HK$11,506,000 as at 31 December 2004. As at 31 December 2005, no time deposits of the Group were pledged as security.

(b) Except for the unsecured bank loans with interest rates ranging from 5.5% to 6.75% which are denominated in Thai Baht, all other borrowings are in Hong Kong dollars.

Interest rates for all the Group's borrowings were floating. The carrying amounts of the Group's borrowings approximate to their fair values.

27. FINANCE LEASE PAYABLES

The Group leases certain of its machineries for its high precision metal component business. These leases are classified as finance leases and have remaining lease terms ranging from two to four years.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2005 HK$'000**	Minimum lease payments 2004 HK$'000	**Present value of minimum lease payments 2005 HK$'000**	Present value of minimum lease payments 2004 HK$'000
Amounts payable:				
Within one year	**35,967**	18,190	**30,249**	15,979
In the second year	**32,652**	17,957	**28,956**	16,460
In the third to fifth years, inclusive	**41,922**	26,991	**39,738**	25,940
Total minimum finance lease payments	**110,541**	63,138	**98,943**	58,379
Future finance charges	**(11,598)**	(4,759)		
Total net finance lease payables	**98,943**	58,379		
Portion classified as current liabilities *(note 26)*	**(30,249)**	(15,979)		
Non-current portion *(note 26)*	**68,694**	42,400		

28. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities

Group	**2005** **Accelerated tax depreciation** **HK$'000**	**Revaluation of properties** **HK$'000**	**Total** **HK$'000**
At 1 January 2005	**4,009**	**–**	**4,009**
Deferred tax charged/(credited) to the income statement during the year *(note 10)*	**(2,645)**	**736**	**(1,909)**
Exchange realignment	**(189)**	**–**	**(189)**
Gross deferred tax liabilities at 31 December 2005	**1,175**	**736**	**1,911**

Deferred tax assets

Group	**2005** **Deductible temporary differences** **HK$'000**	**Items not taxable until taken up in the statutory accounts of a subsidiary in Mainland China** **HK$'000**	**Total** **HK$'000**
At 1 January 2005	**(742)**	**568**	**(174)**
Deferred tax charged/(credited) to the income statement *(note 10)* during the year	**742**	**(568)**	**174**
Gross deferred tax assets at 31 December 2005	**–**	**–**	**–**

28. DEFERRED TAX *(Continued)*

Deferred tax liabilities

Group	2004 Accelerated tax depreciation HK$'000
At 1 January 2004	2,570
Deferred tax charged to the income statement during the year *(note 10)*	1,326
Exchange realignment	113
Gross deferred tax liabilities at 31 December 2004	4,009

Deferred tax assets

Group		2004	
	Deductible temporary differences HK$'000	Items not taxable until taken up in the statutory accounts of a subsidiary in Mainland China HK$'000	Total HK$'000
At 1 January 2004	(878)	–	(878)
Deferred tax charged to the income statement during the year *(note 10)*	136	568	704
Gross deferred tax assets at 31 December 2004	(742)	568	(174)

The Group has tax losses arising in Hong Kong of HK$60,000 (2004: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

Shares	2005 HK$'000	2004 HK$'000
Authorised:		
1,200,000,000 (2004: 1,200,000,000) ordinary shares of HK$0.1 each	**120,000**	120,000
Issued and fully paid:		
601,070,000 (2004: 500,000,000) ordinary shares of HK$0.1 each	**60,107**	50,000

The movements in share capital for the years ended 31 December 2005 and 2004 were as follows:

(a) On 10 July 2002, the Company was incorporated with an authorised share capital of HK$100,000 divided into 1,000,000 ordinary shares of HK$0.1 each. On 29 July 2002, one share was allotted and issued to the initial subscriber, fully paid at par, and such share was subsequently transferred to Tottenhill on the same date.

(b) On 25 June 2004, pursuant to the group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company allotted and issued 99,999,999 ordinary shares of HK$0.1 each, credited as fully paid, to Tottenhill as a consideration for the acquisition of the entire issued share capital of Best Device, the previous holding company of the Group. The difference between the nominal value of the share capital of Best Device and that at the Company has been debited to the contributed surplus as set out in note 31(b) to the financial statements.

(c) On 1 November 2004, 127,500,000 ordinary shares of HK$0.1 each were issued through a placing and public offer (the "New Issue") of the Company's shares at a price of HK$0.77 each per share for a total cash consideration of HK$98,175,000 before the related issue expenses.

(d) Immediately after the New Issue, share premium of HK$27,250,000 was capitalised for the issuance of 272,500,000 shares of HK$0.1 each on a pro rata basis to the Company's shareholders before the New Issue. The Company underwent a capitalisation issue pursuant to which the credit standing of the share premium account was applied to pay up 272,500,000 ordinary shares of HK$0.1 each.

(e) During the year, the Group placed 100,000,000 new shares at the subscription price of HK$1.15 per share, resulting in a total cash consideration, before expenses, of HK$115,000,000.

(f) The subscription rights attaching to 1,070,000 share options were exercised at the subscription price of HK$0.78 per share (note 30), resulting in the issue of 1,070,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$834,600.

29. SHARE CAPITAL *(Continued)*

A summary of the transactions with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2004	*(a)*	1	–	–	–
Ordinary shares issued for the acquisition of the entire issued share capital of Best Device	*(b)*	99,999,999	10,000	16,996	26,996
Ordinary shares issued pursuant to the placing and public offer	*(c)*	127,500,000	12,750	85,425	98,175
Ordinary shares issued pursuant to a capitalisation issue	*(d)*	272,500,000	27,250	(27,250)	–
Share issue expenses	*(c)*	–	–	(26,362)	(26,362)
At 31 December 2004 and 1 January 2005		500,000,000	50,000	48,809	98,809
Placement of new shares	*(e)*	100,000,000	10,000	105,000	115,000
Share options exercised	*(f)*	1,070,000	107	728	835
		601,070,000	60,107	154,537	214,644
Share issue expenses	*(e)*	–	–	(3,516)	(3,516)
At 31 December 2005		**601,070,000**	**60,107**	**151,021**	**211,128**

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution in writing of the sole shareholder dated 12 October 2004 which became effective on 1 November 2004, the date on which the shares of the Company were listed on the Stock Exchange. Unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from 12 October 2004.

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Under the Scheme, the directors of the Company are authorised at their absolute discretion, to invite any directors (including the executive, non-executive and independent non-executive directors) and full-time employees of any member of the Group and any advisors, consultants, distributors, contributors, suppliers, agents, customers, joint venture business partners, promoters, service providers of any member of the Group who is eligible to participate in the Scheme, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of listing of the Company's shares on the Stock Exchange.

The Company may seek approval of the shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the Scheme and any other scheme) will not be counted for the purpose of calculating the limit.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue at the date of grant.

The exercise price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the making of the offer but in any case the exercise price shall be at least the highest of (i) the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange on the offer date; (ii) the average of the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of a share of the Company.

The offer of a grant of share options must be accepted not later than 28 days after the date of the offer, upon payment of a consideration of HK$1 by the grantee. Share options may be exercised during the period commencing on the date upon which the share options are accepted and expiring on the last day of a five-year period from such acceptance date or the last day of the period of the Scheme, whichever is earlier. There is no minimum period for which an option must be held before the exercise of the option except otherwise imposed by the board of directors.

Share options do not confer rights on the holders to dividends or to vote at Shareholders' meetings.

Notes to the Financial Statements

31 December 2005

30. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares***: At grant date of options HK$	Immediately before the exercise date HK$	At exercise date of options HK$
Directors												
Mr. Chui Siu On	–	800,000	–	–	–	800,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	800,000	–	–	–	800,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	3,000,000	–	–	–	3,000,000						
Mr. Ho Yu Hoi	–	1,400,000	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	2,200,000	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	5,000,000	–	–	–	5,000,000						
Mr. Lai Man Kit	–	1,400,000	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	2,200,000	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	5,000,000	–	–	–	5,000,000						
Mr. Li Chi Hang	–	1,400,000	–	–	–	1,400,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	1,400,000	–	–	–	1,400,000	27-07-05	01-07-06 to 31-12-08	1.41	1.39	–	–
	–	2,200,000	–	–	–	2,200,000	27-07-05	01-07-07 to 31-12-08	1.41	1.39	–	–
	–	5,000,000	–	–	–	5,000,000						
Mr. Ng Kin Nam	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–
Dr. Cheng Ngok	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–
Mr. Wu Karl Kwok	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–
Mr. Choi Hon Ting, Derek	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 26-07-10	1.41	1.39	–	–

Notes to the Financial Statements

31 December 2005

30. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme during the year *(Continued)*:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares***: At grant date of options HK$	Immediately before the exercise date HK$	At exercise date of options HK$
Members of senior Management and other Employees of the Group												
In aggregate	5,710,000	–	(1,020,000)	–	–	4,690,000	30-11-04	30-11-04 to 31-12-08	0.78	–	1.41	1.40
	5,840,000	–	–	–	(180,000)	5,660,000	30-11-04	01-01-06 to 31-12-08	0.78	–	–	–
	5,840,000	–	–	–	(305,000)	5,535,000	30-11-04	01-01-07 to 31-12-08	0.78	–	–	–
	5,860,000	–	–	–	(325,000)	5,535,000	30-11-04	01-01-08 to 31-12-08	0.78	–	–	–
	–	3,000,000	–	–	–	3,000,000	04-02-05	04-02-05 to 31-12-07	1.09	1.22	–	–
	–	1,500,000	–	–	–	1,500,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	3,720,000	–	–	–	3,720,000	27-07-05	01-01-06 to 31-12-08	1.41	1.39	–	–
	–	5,580,000	–	–	(160,000)	5,420,000	27-07-05	01-01-07 to 31-12-08	1.41	1.39	–	–
	–	7,450,000	–	–	(240,000)	7,210,000	27-07-05	01-01-08 to 31-12-08	1.41	1.39	–	–
	23,250,000	21,250,000	(1,020,000)	–	(1,210,000)	42,270,000						
Suppliers of services												
In aggregate	400,000	–	(50,000)	–	–	350,000	30-11-04	30-11-04 to 31-12-08	0.78	–	1.61	1.57
	450,000	–	–	–	–	450,000	30-11-04	01-01-06 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-07 to 31-12-08	0.78	–	–	–
	450,000	–	–	–	–	450,000	30-11-04	01-01-08 to 31-12-08	0.78	–	–	–
	–	7,000,000	–	–	–	7,000,000	04-02-05	04-02-05 to 31-12-07	1.09	1.22	–	–
	–	500,000	–	–	–	500,000	27-07-05	27-07-05 to 31-12-08	1.41	1.39	–	–
	–	280,000	–	–	–	280,000	27-07-05	01-01-06 to 31-12-08	1.41	1.39	–	–
	–	420,000	–	–	–	420,000	27-07-05	01-01-07 to 31-12-08	1.41	1.39	–	–
	–	550,000	–	–	–	550,000	27-07-05	01-01-08 to 31-12-08	1.41	1.39	–	–
	1,750,000	8,750,000	(50,000)	–	–	10,450,000						
	25,000,000	50,000,000	(1,070,000)	–	(1,210,000)	72,720,000						

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

30. SHARE OPTION SCHEME *(Continued)*

The fair value of the share options granted during the year was HK$7,577,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005:

Dividend yield (%)	3.74% to 4.41%
Expected volatility (%)	31.64% to 36.41%
Historical volatility (%)	31.64% to 36.41%
Risk-free interest rate (%)	0.89% to 3.48%
Expected life of option (year)	1.08 to 2.93
Weighted average share price (HK$)	0.80 to 1.39

The expected life of the options is based on the historical data over prior periods and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 1,070,000 share options exercised during the year resulted in the issue of 1,070,000 ordinary shares of the Company and new share capital of HK$107,000 and share premium of HK$727,600 (before issue expenses), as further detailed in note 29 to the financial statements.

At the balance sheet date, the Company had 72,720,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 72,720,000 additional ordinary shares of the Company and additional share capital of HK$7,272,000 and share premium of HK$77,497,600 (before issue expenses).

At the date of approval of these financial statements, the Company had 70,015,000 share options outstanding under the Scheme, which represented approximately 11.6% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 45 to 46 of the financial statements.

The Group's contributed surplus originally represented the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation set out in note 29(b) prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the law of the PRC on wholly-foreign-owned investment enterprises, the Company's subsidiaries are required to appropriate an amount of not less than 10% of their profits after tax to the statutory surplus reserve, until the accumulated total of such appropriations reaches 50% of the respective subsidiaries' registered capital and thereafter any further appropriation is optional. The reserve can only be used, upon approval of the relevant authority, to offset accumulated losses or increase capital.

The transfer of net profit to the statutory public welfare fund is made at the discretion of the director at 5% of the net profit of the Company's subsidiaries. The statutory public welfare fund can be used for employees' welfare facilities. The directors did not resolve to make any transfer of retained profits to the statutory public welfare fund for the years ended 31 December 2005 and 2004.

31. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2004		–	–	–	–	–	–
Contributed surplus arising on acquisition of Best Device Group Limited and its subsidiaries	*29(b)*	–	–	(9,958)	–	–	(9,958)
Issue of shares	*29(c)*	85,425	–	–	–	–	85,425
Capitalisation of share premium	*29(d)*	(27,250)	–	–	–	–	(27,250)
Share issue expenses	*29(c)*	(26,362)	–	–	–	–	(26,362)
Net profit for the year		–	–	–	–	20,605	20,605
Interim 2004 dividend	*12*	–	–	–	–	(6,050)	(6,050)
Proposed final 2004 dividend	*12*	–	–	–	–	(9,000)	(9,000)
At 31 December 2004		31,813	–	(9,958)	–	5,555	27,410
Issue of shares	*29(e)*	105,000	–	–	–	–	105,000
Share issue expenses	*29(e)*	(3,516)	–	–	–	–	(3,516)
Exercise of share options	*29(f)*	728	–	–	–	–	728
Equity-settled share option scheme	*30*	–	7,577	–	–	–	7,577
Net loss for the year		–	–	–	–	(26)	(26)
Final 2004 dividend	*12*	–	–	–	–	(1,803)	(1,803)
Interim 2005 dividend	*12*	–	–	–	–	(9,009)	(9,009)
Proposed final 2005 dividend	*12*	–	–	–	–	(10,867)	(10,867)
		134,025	7,577	(9,958)	–	(16,150)	115,494

The Company's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 29(b), over the nominal value of the Company's shares issued in exchange therefor.

32. DISPOSAL OF A SUBSIDIARY

	Note	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment		**57**	–
Cash and bank balances		**173**	–
Trade receivables		**227**	–
Prepayments and other receivables		**177**	–
Accruals and other payables		**(403)**	–
Tax payable		**(37)**	–
Minority interests		**(21)**	–
		173	–
Loss on disposal of a subsidiary	6	**(173)**	–
		–	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005 HK$'000	2004 HK$'000
Cash consideration	**–**	–
Cash and bank balances disposed of	**173**	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(173)**	–

The results of the subsidiary disposed of in the year ended 31 December 2005 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of HK$60,015,000 (2004: HK$64,776,000).

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**602,856**	210,000
Guarantees given to an electricity company	**662**	458	**–**	–
Guarantees given to the Customs Department of Thailand in connection with import of machineries	**3,017**	–	**–**	–
	3,679	458	**602,856**	210,000

35. PLEDGED ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 26 to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office equipment under operating lease arrangements. Leases for office equipment are negotiated for terms ranging from two to three years. None of these leases include contingent rentals.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**119**	56
In the second to fifth years, inclusive	**52**	151
After five years	**–**	–
	171	207

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Authorised, but not contracted for		
Plant and machinery	**831**	1,764
Contracted, but not provided for		
Plant and machinery	**40,408**	103,576
Construction in progress	**18,609**	35,318
	59,017	138,894
	59,848	140,658

The Company did not have any significant commitments during the years ended 31 December 2005 and 2004.

38. RELATED PARTY TRANSACTIONS

The Group had following transactions with related parties during the year:

Compensation of key management personnel of the Group:

	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**8,666**	9,262
Post-employment benefits	**119**	114
Share-based payments	**3,924**	–
Total compensation paid to key management personnel	**12,709**	9,376

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of the compensation of key management personnel of the Group also constitutes connected transactions or continuing connected transactions as defined in Chapter 14A of Listing Rules.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, other interest-bearing loans, finance leases, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board reviews and agrees policies for the managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements. Management manages and monitors these exposures to ensure that appropriate measures are implemented in a timely and effective manner.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchase by certain subsidiaries in currencies other than the subsidiaries' functional currency. Approximately 61% (2004: 59%) of the Group's sales are denominated in currencies other than the functional currency of the subsidiaries making the sale, whilst almost 46% (2004: 48%) of costs are denominated in the subsidiaries' functional currency. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arises.

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on it assets and liabilities and cash flows. The matching of assets and liabilities is utilised to hedge interest rate risk.

Besides, the Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and obligations under finance leases. The interest rates and terms of repayment of bank borrowings and obligations under the finance leases of the Group are disclosed in note 26.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group consistently maintains a prudent financial policy and ensures that it maintains sufficient cash to meet its liquidity requirements.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 April 2006.